

SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007



DATE RECEIVED:



AUDIT REVIEW #(s) 04414

Assigned To: Mount

Date Reviewed: 1/23/09

Reviewer's Initials: DM

Date Review(s) Completed: 1/23/09



January 9, 2009

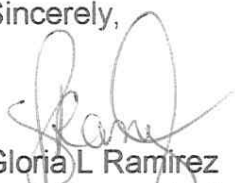
To Whom It May Concern:

Enclosed you will find for your review and further action our Single Audit report for the fiscal year ended June 30, 2008.

Please be aware that no management letter was issue and the report has a clean opinion.

Our grant number is _____ if you need additional information please feel free to call me at (619) 420-3620 or e-mail me at gramirez@csbcs.org

Sincerely,



Gloria L Ramirez
Lead Accountant

south bay community services

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**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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Independent Auditor's Report

To the Board of Directors
South Bay Community Services
(A Nonprofit Corporation)
1124 Bay Boulevard, Suite D
Chula Vista, California 91911

We have audited the accompanying statements of financial position of South Bay Community Services (A Nonprofit Organization) as of June 30, 2008 and 2007, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Bay Community Services as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2008, on our consideration of South Bay Community Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Directors
South Bay Community Services
(A Nonprofit Corporation)

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Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2008 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Leaf & Cole LLP

San Diego, California
December 8, 2008

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

ASSETS		
	<u>2008</u>	<u>2007</u>
<u>Current Assets:</u> (Notes 1, 2 and 8)		
Cash and cash equivalents	\$ 263,270	\$ 392,319
Grants and contracts receivable	1,878,968	1,704,416
Accounts receivable	19,325	24,781
Contribution receivable	100,000	218,077
Development fee receivable	38,398	88,140
Escrow deposits	232	469
Prepaid expenses	<u>20,199</u>	<u>40,500</u>
Total Current Assets	<u>2,320,392</u>	<u>2,468,702</u>
<u>Noncurrent Assets:</u> (Notes 1, 3, 4, 5, 6, 7, 8 and 9)		
Replacement reserve	30,582	35,668
Operating reserve	10,036	13,626
Replacement and maintenance reserve	30,223	15,000
Land, buildings and equipment, net	7,488,926	7,656,288
Investment in limited partnerships	948,075	949,414
Deposits	<u>19,450</u>	<u>14,450</u>
Total Noncurrent Assets	<u>8,527,292</u>	<u>8,684,446</u>
TOTAL ASSETS	<u><u>\$10,847,684</u></u>	<u><u>\$11,153,148</u></u>

The accompanying notes are an integral part of the financial statements.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
<u>Current Liabilities:</u> (Notes 1 and 8)		
Accounts payable	\$ 683,516	\$ 756,737
Accrued expenses	295,899	259,652
Interest payable	1,856	1,879
Security deposits	-0-	11,007
Deferred revenue	180,000	24,645
Line-of-credit	2,500	200,000
Current portion of long-term liabilities	<u>74,772</u>	<u>90,771</u>
Total Current Liabilities	<u>1,238,543</u>	<u>1,344,691</u>
<u>Long-Term Liabilities:</u> (Note 9)		
Notes payable	6,683,757	6,768,649
Interest payable	<u>1,950,597</u>	<u>1,739,663</u>
Total	8,634,354	8,508,312
Less: Current portion	<u>(74,772)</u>	<u>(90,771)</u>
Total Long-Term Liabilities	<u>8,559,582</u>	<u>8,417,541</u>
 Total Liabilities	 <u>9,798,125</u>	 <u>9,762,232</u>
<u>Commitments and Contingencies</u> (Notes 8, 11, 12 and 13)		
<u>Net Assets:</u> (Notes 1 and 10)		
Unrestricted	977,902	1,047,646
Temporarily restricted	<u>71,657</u>	<u>343,270</u>
Total Net Assets	<u>1,049,559</u>	<u>1,390,916</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$10,847,684</u>	 <u>\$11,153,148</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenue:</u>						
Grants and contracts	\$11,405,357	\$	\$11,405,357	\$10,797,562	\$	\$10,797,562
Program income	647,379		647,379	738,004		738,004
Other income	460,187		460,187	288,891		288,891
Special events	299,043		299,043	180,082		180,082
Contributions	260,507		260,507	302,816	248,270	551,086
Management fees	34,287		34,287	33,725		33,725
Development fee	-0-		-0-	139,182		139,182
Net assets released from restrictions	<u>271,613</u>	<u>(271,613)</u>	<u>-0-</u>	<u>228,247</u>	<u>(228,247)</u>	<u>-0-</u>
Total Support and Revenue	<u>13,378,373</u>	<u>(271,613)</u>	<u>13,106,760</u>	<u>12,708,509</u>	<u>20,023</u>	<u>12,728,532</u>
<u>Expenses:</u>						
<u>Program Services:</u>						
Youth and family support services	4,573,598		4,573,598	4,099,567		4,099,567
Children services	2,921,259		2,921,259	1,928,646		1,928,646
Family wellness and self sufficiency	2,593,931		2,593,931	3,639,739		3,639,739
Collaboratives	1,309,129		1,309,129	1,277,382		1,277,382
Community development	326,136		326,136	339,760		339,760
Total Program Services	<u>11,724,053</u>	<u>-0-</u>	<u>11,724,053</u>	<u>11,285,094</u>	<u>-0-</u>	<u>11,285,094</u>
<u>Supporting Services:</u>						
Management and general	1,499,244		1,499,244	1,445,831		1,445,831
Fundraising	79,406		79,406	69,894		69,894
Total Supporting Services	<u>1,578,650</u>	<u>-0-</u>	<u>1,578,650</u>	<u>1,515,725</u>	<u>-0-</u>	<u>1,515,725</u>
Total Program and Supporting Services Expenses	13,302,703	-0-	13,302,703	12,800,819	-0-	12,800,819
<u>Special Events</u>						
Total Expenses	<u>145,414</u>	<u>-0-</u>	<u>145,414</u>	<u>88,730</u>	<u>-0-</u>	<u>88,730</u>
	<u>13,448,117</u>	<u>-0-</u>	<u>13,448,117</u>	<u>12,889,549</u>	<u>-0-</u>	<u>12,889,549</u>
Change in Net Assets	(69,744)	(271,613)	(341,357)	(181,040)	20,023	(161,017)
Net Assets at Beginning of Year	<u>1,047,646</u>	<u>343,270</u>	<u>1,390,916</u>	<u>1,228,686</u>	<u>323,247</u>	<u>1,551,933</u>
NET ASSETS AT END OF YEAR	<u>\$ 977,902</u>	<u>\$ 71,657</u>	<u>\$ 1,049,559</u>	<u>\$ 1,047,646</u>	<u>\$ 343,270</u>	<u>\$ 1,390,916</u>

The accompanying notes are an integral part of the financial statements.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$(341,357)	\$ (161,017)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	253,789	226,585
Investment in limited partnerships	1,339	1,316
(Increase) Decrease in:		
Grants and contracts receivable	(174,552)	(745,293)
Accounts receivable	5,456	77,515
Contribution receivable	118,077	(162,692)
Development fee receivable	49,742	(88,140)
Escrow deposits	237	361
Prepaid expenses	20,301	(10,334)
Deposits	(5,000)	2,000
Increase (Decrease) in:		
Accounts payable	(73,221)	464,044
Accrued expenses	36,247	82,790
Interest payable	210,911	203,514
Security deposits	(11,007)	(522)
Deferred revenue	<u>155,355</u>	<u>(139,519)</u>
Net Cash Provided (Used) by Operating Activities	<u>246,317</u>	<u>(249,392)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchases of buildings and equipment	(86,427)	(684,102)
Replacement reserve deposits	(582)	(4,797)
Replacement reserve withdrawals	5,668	-0-
Operating reserve deposits	(36)	(3,046)
Operating reserve withdrawals	3,626	-0-
Replacement and maintenance reserve deposit	<u>(15,223)</u>	<u>(15,000)</u>
Net Cash Used by Investing Activities	<u>(92,974)</u>	<u>(706,945)</u>
<u>Cash Flows From Financing Activities:</u>		
Principal payments on notes payable	(89,842)	(93,643)
Proceeds from notes payable	4,950	568,951
Line-of-credit advances	272,575	1,475,851
Line-of-credit payments	<u>(470,075)</u>	<u>(1,275,851)</u>
Net Cash (Used) Provided by Financing Activities	<u>(282,392)</u>	<u>675,308</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Net Decrease in Cash and Cash Equivalents	\$(129,049)	\$(281,029)
Cash and Cash Equivalents at Beginning of Year	<u>392,319</u>	<u>673,348</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$263,270</u>	<u>\$392,319</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for:		
Interest	<u>\$ 27,520</u>	<u>\$ 35,485</u>

The accompanying notes are an integral part of the financial statements.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008**

Youth and Family Support Services	Program Services				Community Development	Total Program Services	Supporting Services		Total Program and Supporting Services Expenses
	Children Services	Family Wellness and Self Sufficiency	Collaboratives	Management and General			Fundraising	Total Supporting Services	
\$2,714,415	\$ 945,347	\$1,157,993	\$1,080,945	\$106,794	\$ 6,005,494	\$ 1,007,253	\$63,621	\$1,070,874	\$7,076,368
311,709	1,468,580	16,026			1,796,315			-0-	1,796,315
258,765	85,884	99,862	110,103	12,204	566,818	107,823	9,423	117,246	684,064
154,622	58,782	286,398	1,124	6,347	507,273	40,566		40,566	547,839
214,123	75,156	92,640	84,735	8,057	474,711	66,002	6,362	72,364	547,075
65,346	74,439	65,578		20,258	225,621	127,990		127,990	353,611
45,924	980	152,126		53,781	252,811	978		978	253,789
30,946		147,720		55,124	233,790	4,642		4,642	238,432
132,854		29,523		6,804	182,281	35,761		35,761	218,042
76,426	24,081	56,475	28,709	2,225	187,916	12,084		12,084	200,000
117,159	53,141	26,949			197,249			-0-	197,249
54,016	11,375	87,293		6,418	159,102	22,130		22,130	181,232
75,917	17,415	67,262	1,835	9,983	172,412	3,795		3,795	176,207
41,268	1,200	73,602		14,299	130,369	3,246		3,246	133,615
15,609	81,754				97,363			-0-	97,363
49,414	13,853	23,201		1,661	88,129	3,907		3,907	92,036
30,171	23,736	22,840	1,290	1,384	79,421	10,137		10,137	89,558
44,316	9,166	13,784		2,930	70,196	11,384		11,384	81,580
41,870	7,691	6,287		6,675	62,523	16,517		16,517	79,040
29,507	9,173	15,422		1,964	56,066	2,484		2,484	58,550
20,665	7,766	7,591	388	2,119	38,529	8,171		8,171	46,700
6,677	1,194	17,769		887	26,527	7,714		7,714	34,241
5,309	5,825	21,570			32,704			-0-	32,704
9,373	2,000	13,196		3,897	24,569	3,506		3,506	28,075
13,385	10,274			2,277	27,556			-0-	27,556
7,891		3,036			13,204			-0-	13,204
4,565	651	1,485		23	6,724	2,979		2,979	9,703
212		5,671		25	5,883			-0-	5,883
300	50	878			1,253	175		175	1,428
844	400				1,244			-0-	1,244
\$4,573,598	\$2,921,259	\$2,593,931	\$1,309,129	\$326,136	\$11,724,053	\$1,499,244	\$79,406	\$1,578,650	\$13,302,703

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007**

Youth and Family Support Services	Program Services				Management and General	Supporting Services		Total Program and Supporting Services Expenses
	Family Wellness and Self Sufficiency	Children Services	Collaboratives	Community Development		Fundraising	Total Supporting Services	
\$2,530,494	\$1,485,818	\$ 375,222	\$1,059,329	\$122,793	\$ 948,255	\$59,182	\$1,007,437	\$ 6,581,093
168,160	412,217	1,391,528					-0-	1,971,905
213,501	121,525	41,201	101,815	10,186	112,029	6,282	118,311	606,539
205,225	120,694	31,046	85,938	9,775	65,874	4,430	70,304	522,982
31,517	171,368	8,586		17,333	100,941		100,941	329,745
178,113	140,516						-0-	318,629
109,190	158,317	3,000			41,943		41,943	312,450
30,946	151,802			48,112	8,139		8,139	238,999
44,805	142,905	980		36,917	978		978	226,585
81,725	83,458	21,366	857	4,985	32,862		32,862	225,253
45,254	108,212	7,943		20,912	25,555		25,555	207,876
70,614	92,778	2,000	6,420	8,929	8,476		8,476	189,217
62,323	57,707	13,750	20,181	3,370	9,539		9,539	166,870
39,369	81,914			15,795	5,380		5,380	142,458
29,337	73,860				198		198	103,395
51,650	29,866	3,887		2,566	3,661		3,661	91,630
37,814	22,500	5,859		2,586	12,891		12,891	81,650
25,877	34,809	8,156	1,642	1,139	7,891		7,891	79,514
20,944	27,225	809		8,406	10,385		10,385	67,769
32,831	4,779			5,392	24,697		24,697	67,699
30,016	24,278	5,003	1,200	1,838	3,671		3,671	66,006
9,040	47,556	7,440					-0-	64,036
21,758	12,547			14,400	9,226		-0-	48,705
3,598	13,645	25		2,000	10,168		9,226	28,494
9,000	8,122				770		10,168	27,290
6,070	2,180	145					770	9,165
3,601	3,168	300		2,326	53		53	9,148
4,250	951				2,249		2,249	7,750
1,682	5,022						-0-	6,704
863		400					-0-	1,263
<u>\$4,099,567</u>	<u>\$3,639,739</u>	<u>\$1,928,646</u>	<u>\$1,277,382</u>	<u>\$339,760</u>	<u>\$1,445,831</u>	<u>\$69,894</u>	<u>\$1,515,725</u>	<u>\$12,800,819</u>

financial statements.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Organization and Nature of Activities and Significant Accounting Policies:

Organization and Nature of Activities

South Bay Community Services (the "Organization"), is a Nonprofit Corporation incorporated on August 4, 1971. The Organization's mission is to provide children, youth, and families in the South Bay area with services which reinforce the family's role in our community and assist individuals to aspire realistically to lives of self-fulfillment.

The following is a brief description of the Organization's programs:

Youth and Family Support Services

Youth and Family Support Services provides an array of services and activities to assist youth and their families in all aspects of life including: health, education, work recreation, family, and social, as well as enhancing adult-youth partnerships. Programs include counseling, juvenile diversion, pregnancy prevention, after school programming, gang alternatives, gender specific programming, youth entrepreneurial activities, and other supportive and youth development services for at-risk youth and their families.

The Youth and Family Support Services also focuses on recognizing the strengths, assets, and resiliency of youth in particular, and maximizing the potential for their long-term development by encouraging their creative abilities within a family and community context. Programs include Trolley Trestle Transitional Living Program for former foster youth, Casa Nuestra shelter for runaway and homeless youth, Independent Living Program for current and former foster youth, Mental Health Services for children and youth in the community, and the Community Assessment Team, whose purpose is to avoid at-risk youth's penetration into the justice system or social service system by providing early crisis intervention and appropriate follow-up services.

Family Wellness and Self Sufficiency

These programs strengthen at-risk families and the connection with their communities through a comprehensive continuum of activities, opportunities, and services. Services include a continuum of shelters, counseling and supportive services, community advocacy, and self sufficiency skills programs.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Organization and Nature of Activities and Significant Accounting Policies: (Continued)

Organization and Nature of Activities (Continued)

Children Services

The Organization's children's services provides children with the therapeutic, developmental, and educational support they need, in safe, healthy environments. Children's programs include Mental Health Services, Early Periodic Screening Diagnosis and Treatment, and Community Services for Families. Services may include therapeutic playgroups or other settings which held children to develop the physical, mental, social, emotional, and creative skills needed for life. Children learn new ways of interacting in group settings and practice life skills and socialization skills. They discover mechanisms by which they can identify anger and impulsive behaviors within themselves, and techniques to change negative behaviors and attitudes into positive ones.

Collaboratives

Through collaborative partnerships, the Organization has been able to leverage linkages and other collaborative resources and services to provide a comprehensive system of youth and family treatment services, while at the same time avoiding duplication of services. The Organization belongs to three local community wide school-based collaboratives as well as many service-based.

Community Development

Community development promotes economic development and neighborhood revitalization, the core of which are the development of affordable housing options, social enterprise development, and community youth development projects and economic advancement for low income South Bay families. The Organization has developed extensive housing opportunities.

Significant Accounting Policies

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Organization and Nature of Activities and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Financial Statement Presentation

The financial statements are presented in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-For-Profit Organizations", which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions receivable totalled \$100,000 and \$218,077 at June 30, 2008 and 2007, respectively and are due within one year.

Allowance for Doubtful Accounts

Management believes that all receivables were fully collectible, therefore, no allowance for doubtful accounts was recorded as of June 30, 2008 and 2007.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Organization and Nature of Activities and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost. Donations of land, building and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, building and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintaining, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Buildings and equipment are depreciated using the straight-line and accelerated methods over the estimated useful asset lives as follows:

Buildings and improvements	5 - 40 years
Equipment	5 - 7 years
Vehicles	5 years

Depreciation aggregated \$253,789 and \$226,585 for the years ended June 30, 2008 and 2007, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Revenue Recognition

Grant and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Receivables are recorded when revenue earned under a grant or contract exceeds the cash received. Grants and contracts receivable totalled \$1,878,968 and \$1,704,416 at June 30, 2008 and 2007, respectively.

Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred revenues totalled \$180,000 and \$24,645 at June 30, 2008 and 2007, respectively.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Organization and Nature of Activities and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Allocated Expenses

Expenses by function have been allocated among program and supporting services classification on the basis of internal records and estimates made by the Organization's management.

Change in Net Assets

For the years ended June 30, 2008 and 2007, the changes in net assets on the statements of activities were \$(341,357) and \$(161,017), respectively. However, the net cash provided (used) by operating activities on the statement of cash flows were \$246,317 and \$(249,392), respectively. Expenses not requiring cash including depreciation and interest payable from residual receipts notes represent the significant factors necessary to reconcile the change in net assets to the net cash provided (used) by operating activities.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization is not a private foundation.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Note 1 - Organization and Nature of Activities and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Reclassification

The Organization has reclassified certain prior year information to conform with current year presentations.

Note 2 - Development Fee Receivable:

The Organization entered into a Development Services Agreement dated December 5, 2001 in which the Organization is to receive a development fee in the amount of \$250,000. As of June 30, 2007 the total development fee was earned. Development fee receivable totalled \$38,398 and \$88,140 at June 30, 2008 and 2007, respectively. Development fee revenue totalled \$-0- and \$139,182 for the years ended June 30, 2008 and 2007, respectively.

Note 3 - Replacement Reserve:

In accordance with the provisions of the Acquisition, Rehabilitation, and Permanent Financing Loan Agreement with the San Diego Housing Commission, the Organization is required to maintain a replacement reserve on 135 Averil Road. The reserve is to be funded with an initial deposit of \$30,000 and annually, an amount of money sufficient to maintain the reserve at \$30,000, as adjusted for cost of living, based upon December 1998 dollars shall be deposited into the reserve account and shall be disbursed with the approval of the San Diego Housing Commission as follows:

	<u>2008</u>	<u>2007</u>
Balance, Beginning of Year	\$35,668	\$30,871
Add: Deposits	-0-	4,656
Interest	582	141
Less: Withdrawals	<u>(5,668)</u>	<u>-0-</u>
Balance, End of Year	<u>\$30,582</u>	<u>\$35,668</u>

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 4 - Operating Reserve:

In accordance with the provisions of the Acquisition, Rehabilitation, and Permanent Financing Loan Agreement with the San Diego Housing Commission, the Organization is required to maintain an operating reserve as a contingency against unbudgeted and/or unforeseen expenses in the operation and maintenance of 135 Averil Road. The reserve is to be maintained in an amount not less than \$10,000 and shall be disbursed with the approval of the San Diego Housing Commission as follows:

	<u>2008</u>	<u>2007</u>
Balance, Beginning of Year	\$13,626	\$10,580
Add: Deposits	-0-	3,000
Interest	36	46
Less: Withdrawals	<u>(3,626)</u>	<u>-0-</u>
Balance, End of Year	<u>\$10,036</u>	<u>\$13,626</u>

Note 5 - Replacement and Maintenance Reserve:

In accordance with the provisions of two agreements with the Redevelopment Agency of the City of Imperial Beach, the Organization is required to maintain replacement and maintenance reserves for the continued care and maintenance of 1360 Hemlock Avenue and 1260 Calla Avenue. The reserves are to be funded with initial contributions totalling \$15,000 in 2007 and annual contributions of \$15,000 up to a maximum of \$60,000.

	<u>2008</u>	<u>2007</u>
Balance, Beginning of Year	\$15,000	\$ -0-
Add: Initial contribution	-0-	15,000
Annual contributions	15,000	-0-
Interest	<u>223</u>	<u>-0-</u>
Balance, End of Year	<u>\$30,223</u>	<u>\$15,000</u>

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 6 - Land, Buildings and Equipment:

Land, buildings and equipment consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Land	\$2,168,746	\$2,168,746
Buildings and improvements	7,206,508	7,085,971
Equipment	218,967	218,967
Vehicles	170,416	170,416
Construction in progress	<u>-0-</u>	<u>34,110</u>
Total	9,764,637	9,678,210
Less: Accumulated depreciation	<u>(2,275,711)</u>	<u>(2,021,922)</u>
Land, Buildings and Equipment, Net	<u>\$7,488,926</u>	<u>\$7,656,288</u>

Note 7 - Investment in Limited Partnerships:

The Organization owns a general partnership interest in limited partnerships accounted for on the equity method. The following are the balances in the Organization's partnership capital accounts as of June 30:

	<u>2008</u>	<u>2007</u>
Cordova Village Apartments, L.P. (1%)	\$947,159	\$948,408
South Bay Community Villas, L.P. (.0001%)	1,666	1,667
Trolley Terrace Townhomes, L.P. (.1%)	<u>(750)</u>	<u>(661)</u>
	<u>\$948,075</u>	<u>\$949,414</u>

The Organization provided management services to two of the partnerships for which it earned the following amounts for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Cordova Village Apartments, L.P.	\$19,287	\$18,725
Trolley Terrace Townhomes, L.P.	<u>15,000</u>	<u>15,000</u>
	<u>\$34,287</u>	<u>\$33,725</u>

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 8 - Line-of-Credit

The Organization has a secured business line-of-credit agreement with a financial institution under which the Organization may borrow up to \$500,000. Advances under this agreement bear interest at Wall Street prime rate plus 1.0% (6.0% at June 30, 2008) and are due June 14, 2009. This line-of-credit is secured by substantially all assets of the Organization. Outstanding borrowings under this line-of-credit were \$2,500 and \$150,000 at June 30, 2008 and 2007, respectively. Accrued interest totalled \$-0- and \$97 at June 30, 2008 and 2007, respectively.

The Organization also has a secured business line-of-credit agreement with a financial institution under which the Organization may borrow up to \$100,000. Advances under this agreement bear interest at Wall Street prime rate plus 3.25% (12.5% at June 30, 2007) and are due August 14, 2008. This line-of-credit is secured by a deed of trust on 1515 Hilltop Drive. Outstanding borrowings under this line-of-credit were \$-0- and \$50,000 at June 30, 2008 and 2007, respectively. Accrued interest totalled \$-0- and \$17 at June 30, 2008 and 2007, respectively. The line-of-credit agreement was terminated in July 2007.

The Organization had a secured business line-of-credit agreement with a financial institution under which the Organization could borrow up to \$75,000. Advances under this agreement accrued interest at the bank's prime rate plus 4.5% (12.75% at June 30, 2007). This line-of-credit was secured by substantially all assets of the Organization. There were no outstanding borrowings under this line-of-credit at June 30, 2008 and 2007. The line-of-credit agreement was terminated in August, 2007.

Note 9 - Notes Payable:

Notes payable consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Note payable to Union Bank of California in monthly payments of \$1,328 for 119 months including interest at 6.75% and one balloon payment of \$68,782. Secured by deed of trust on 17 - 19 4th Avenue. Due August 2013. Accrued interest totalled \$645 and \$690 at June 30, 2008 and 2007, respectively.	\$116,692	\$124,450
Note payable to the City of Chula Vista. The note bears interest at 6% per annum. Annual payments of principal and interest are payable only from "residual receipts", as defined in the loan agreement. Secured by deed of trust on 17 - 19 4th Avenue. Accrued interest totalled \$282,965 and \$261,364 at June 30, 2008 and 2007, respectively.	360,015	360,015

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 9 - Notes Payable: (Continued)

	<u>2008</u>	<u>2007</u>
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note is non-interest bearing and requires no payment of interest or principal unless the property is disposed of by the Organization, in which case the County will receive a portion of the proceeds based on the provisions set forth in the loan documents. Secured by deed of trust on 17 - 19th Avenue.	\$194,551	\$194,551
Note payable to Citibank in monthly payments of \$1,691 including interest at 6.99%. Secured by deed of trust on 1360 Hemlock Avenue. Due July, 2017. Accrued interest totalled \$864 and \$841 at June 30, 2008 and 2007, respectively.	134,417	144,355
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note is non-interest bearing and requires no payment of interest or principal unless the property is disposed of by the Organization, in which case the County will receive a portion of the proceeds based on the provisions set forth in the loan documents. Secured by deed of trust on 1360 Hemlock Avenue.	204,247	204,247
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts", as defined in the loan agreement through July, 2051. Secured by deed of trust on 1260 Calla. Accrued interest totalled \$157,732 and \$143,962 at June 30, 2008 and 2007, respectively.	459,035	459,035
Note payable to Low Income Housing Fund in monthly payments of \$5,028 including interest at 6.90% until February 1, 2004, and 7.5% thereafter. Secured by deed of trust on 135 Averil Road. Due January, 2009. Accrued interest totalled \$198 and \$-0- at June 30, 2008 and 2007, respectively.	34,402	85,750

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 9 - Notes Payable: (Continued)

	<u>2008</u>	<u>2007</u>
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts", as defined in the loan agreement through December 2053. Secured by deed of trust on 135 Averil Road. Accrued interest totalled \$63,089 and \$56,489 at June 30, 2008 and 2007, respectively.	\$220,000	\$220,000
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from "residual receipts", as defined in the loan agreement through December 2053. Secured by deed of trust on 135 Averil Road. Accrued interest totalled \$170,976 and \$152,976 at June 30, 2008 and 2007, respectively.	600,000	600,000
Note payable to the San Diego Housing Commission. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts", as defined in the loan agreement through December 2053. Secured by deed of trust on 135 Averil Road. Accrued interest totalled \$174,215 and \$153,991 at June 30, 2008 and 2007, respectively.	630,700	630,700
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note bears interest at 3% per annum beginning December 1999. Annual payments of principal and interest are payable only from 50% of "residual receipts", as defined in the loan agreement through December 2054. Secured by deed of trust on 746 Ada Street. Accrued interest totalled \$113,824 and \$99,096 at June 30, 2008 and 2007, respectively.	490,934	490,934
Note payable to the City of Chula Vista. The note bears interest at 3% per annum beginning December 2000. Annual payments of principal and interest are payable only from "residual receipts", as defined in the loan agreement through December 2055. Secured by deed of trust on 746 Ada Street. Accrued interest totalled \$37,935 and \$32,908 at June 30, 2008 and 2007, respectively.	167,600	167,600

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 9 - Notes Payable: (Continued)

	<u>2008</u>	<u>2007</u>
Note payable to the City of Chula Vista. The note bears interest at 3% per annum beginning December 2000. Annual payments of principal and interest are payable only from "residual receipts", as defined in the loan agreement through December 2055. Secured by deed of trust on 746 Ada Street. Accrued interest totalled \$88,492 and \$77,302 at June 30, 2008 and 2007, respectively.	\$373,000	\$373,000
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 50% of "residual receipts" beginning March 2005, as defined in the loan agreement through April 2055. Secured by deed of trust on 1125 - 1137 B Avenue. Accrued interest totalled \$39,078 and \$34,341 at June 30, 2008 and 2007, respectively.	157,890	157,890
Note payable to the City of Chula Vista. The note bears interest at 6% per annum. Annual payments of principal and interest are payable only from 70% of "residual receipts", as defined in the loan agreement. Due upon default as defined in the loan agreement. Secured by deed of trust on 31 4th Avenue. Accrued interest totalled \$544,759 and \$508,150 at June 30, 2008 and 2007, respectively.	610,146	610,146
Note payable to the City of National City. The note bears interest at 3% per annum. Annual payments of principal and interest are payable only from 30% of "residual receipts", as defined in the loan agreement through October, 2023. Secured by deed of trust on 31 4th Avenue. Accrued interest totalled \$110,458 and \$102,958 at June 30, 2008 and 2007, respectively.	250,000	250,000
Note payable to the County of San Diego Department of Housing and Community Development (the "County"). The note is non-interest bearing and requires no payment of interest or principal unless the property is disposed of by the Organization, in which case the County will receive a portion of the proceeds based on the provisions set forth in the loan documents. Secured by deed of trust on 31 4th Avenue.	97,000	97,000
Note payable to the City of Chula Vista. The note bears interest at 6% per annum. Annual payments of principal and interest are payable only from "residual receipts", as defined in the loan agreement through November, 2028. Secured by deed of trust on 1747 D Regency Way. Accrued interest totalled \$35,636 and \$31,735 at June 30, 2008 and 2007, respectively.	65,020	65,020

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 9 - Notes Payable: (Continued)

	<u>2008</u>	<u>2007</u>
Notes payable to the City of Chula Vista. The note bears interest at 6% per annum. Annual payments of principal and interest are payable only from "residual receipts", as defined the loan agreement through November, 2028. Secured by deed of trust on 1536 A Concord. Accrued interest totalled \$42,868 and \$38,278 at June 30, 2008 and 2007, respectively.	\$ 76,495	\$ 76,495
Note payable to Union Bank of California in monthly payments of \$1,969 including interest at 6.75%. Due May 2009. Accrued interest totalled \$149 and \$234 at June 30, 2008 and 2007, respectively.	21,425	42,223
Note payable to the State of California Department of Housing and Community Development. The note bears interest at 3% per annum. Repayment of principal and interest shall be deferred as long as the development is operated within the terms of the regulatory agreement. Secured by deeds of trust on 17-19 4th Avenue and 31 4th Avenue. Accrued interest totalled \$32,393 and \$20,729 at June 30, 2008 and 2007, respectively.	388,808	388,808
Note payable to the Redevelopment Agency of the City of Imperial Beach. The note bears interest at 3% per annum. The note requires no payments of principal and interest if rental and occupancy conditions are met. Upon expiration of the note term, the note amount and accrued interest shall be forgiven provided all covenants and conditions were met over the note term. Secured by deed of trust on 1360 Hemlock Avenue. Accrued interest totalled \$29,969 and \$13,756 at June 30, 2008 and 2007, respectively.	540,425	540,425
Note payable to the Redevelopment Agency of the City of Imperial Beach. The notes bears interest at 3% per annum. The note requires no payments of principal and interest if rental and occupancy conditions are met. Upon expiration of the note term, the note amount and accrued interest shall be forgiven provided all covenants and conditions were met over the note term. Secured by deed of trust on 1260 Calla Avenue. Accrued interest totalled \$26,208 and \$11,628 at June 30, 2008 and 2007, respectively.	<u>490,955</u> <u>\$6,683,757</u>	<u>486,005</u> <u>\$6,768,649</u>

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 9 - Notes Payable: (Continued)

Aggregate maturities of notes payable for the five years following June 30, 2008 are as follows:

Years Ended <u>June 30,</u>	
2009	\$ 74,772
2010	20,372
2011	21,909
2012	23,562
2013	25,339
Thereafter	<u>6,517,803</u>
	<u>\$6,683,757</u>

Note 10 - Restrictions on Net Assets:

Temporarily restricted net assets consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Mi Escuelita	\$ -0-	\$ 90,770
General Obligations	71,657	200,000
Shelter Playground	-0-	45,000
Casa Nuestra Rehab	<u>-0-</u>	<u>7,500</u>
	<u>\$71,657</u>	<u>\$343,270</u>

During the years ended June 30, 2008 and 2007, net assets of \$180,843 and \$228,247, respectively were released from restrictions by incurring expenses satisfying the purpose or time restrictions specified by the donors:

	<u>2008</u>	<u>2007</u>
General Obligations	\$128,343	\$ 60,000
Mi Escuelita	90,770	97,017
Shelter Playground	45,000	1,230
Casa Nuestra Rehab	7,500	-0-
Literacy Program	<u>-0-</u>	<u>70,000</u>
	<u>\$271,613</u>	<u>\$228,247</u>

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 11 Commitments and Contingencies:

Operating Leases

The Organization leases office space under a lease agreement that expires November, 2011. Rent expense totalled \$218,043 and \$207,834 for the years ended June 30, 2008 and 2007, respectively.

The Organization leases one apartment under a lease agreement that expires April, 2009 and other apartments on a month-to-month basis for program related purposes. Rent expense for these leases totalled \$82,486 and \$104,616 for the years ended June 30, 2008 and 2007, respectively.

The following is a schedule by years of future minimum lease payments under the leases at June 30, 2008:

<u>Years Ended</u> <u>June 30,</u>	<u>Office Space</u>
2009	\$273,174
2010	233,573
2011	241,748
2012	<u>102,755</u>
	<u>\$851,250</u>

Note 12 - Employee Benefit Plan:

The Organization has established a 403(b) defined contribution plan (the "Plan") covering employees with 90 days of service with the Organization and have attained age 21. Employees may defer up to 15% of their annual compensation, not to exceed the annual amount allowed by law. The Organization contributes a matching contribution after completion of one year of service equal to 100% of employee salary deferrals up to 10% of compensation. In addition, the Organization may contribute a discretionary matching contribution each year. The Organization contributed \$203,539 and \$183,390 for the years ending June 30, 2008 and 2007, respectively, and is included in employee benefits expense.

Note 13 - Litigation:

The Organization is, from time to time, involved in lawsuits arising in the ordinary course of its business that, in the opinion of management, will not have a material effect on the Organization's results of operations.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Direct Program:		
Supportive Housing Program	14.235	\$ 391,678
Total Direct Program		<u>391,678</u>
Pass-Through Programs From:		
City of Chula Vista:		
Community Development Block Grants/Entitlement Grants	14.218	140,600
HOME Investment Partnerships Program	14.239	610,146
County of San Diego:		
HOME Investment Partnerships Program	14.239	1,028,386
Housing Opportunities For Persons With AIDS	14.241	25,650
San Diego County Department of Housing and Community Development:		
Housing Opportunities For Persons With AIDS	14.241	600,000
HOME Investment Partnerships Program	14.239	490,934
Total Pass-Through Programs		<u>2,895,716</u>
Total U.S. Department of Housing and Urban Development		<u>3,287,394</u>
Department of Justice:		
Direct Program:		
Transitional Housing Assistance for Victims of Domestic Violence, Stalking or Sexual Assault	16.736	33,764
Total Direct Program		<u>33,764</u>
Pass-Through Programs From:		
State of California:		
Juvenile Justice and Delinquency Prevention	16.540	340,958
Crime Victim Assistance	16.575	283,380
Violence Against Women Formula Grants	16.588	29,494
Total Pass-Through Programs		<u>653,832</u>
Total Department of Justice		<u>687,596</u>
Department of Labor:		
Pass-Through Program From:		
San Diego Workforce Partnership:		
WIA Youth Activities	17.259	175,989
Total Department of Labor		<u>175,989</u>

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Federal Emergency Management Agency:		
Pass-Through Program From:		
Catholic Charities - Diocese of San Diego:		
Emergency Food and Shelter National Board Program	97.024	\$ <u>43,629</u>
Total Federal Emergency Management Agency		<u>43,629</u>
Department of Health and Human Services:		
Direct Programs:		
Transitional Living for Homeless Youth	93.550	200,000
Basic Center Grant	93.623	150,000
Family Violence Prevention and Services/ Grants for Battered Women's Shelters-		
Discretionary Grants	93.592	<u>104,031</u>
Total Direct Programs		<u>454,031</u>
Pass-Through Programs From:		
California Department of Social Services:		
Family Violence Prevention and Services/ Grants for Battered Women's Shelters-		
Grants to States and Indian Tribes	93.671	200,529
County of San Diego:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	260,000
Chafee Foster Care Independence Program	93.674	375,516
Community-Based Child Abuse Prevention Grants	93.590	16,250
Promoting Safe and Stable Families	93.556	<u>216,702</u>
Total Pass-Through Programs		<u>1,068,997</u>
Total Department of Health and Human Services		<u>1,523,028</u>
Total Expenditures of Federal Awards		<u>\$5,717,636</u>

Note: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.



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**Independent Auditor's Report on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With Government Auditing Standards**

To the Board of Directors
South Bay Community Services

We have audited the financial statements of South Bay Community Services (A Nonprofit Organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Bay Community Services' internal control of financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Bay Community Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Bay Community Services' financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leaf & Cole LLP

San Diego, California
December 8, 2008



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**Independent Auditor's Report on
Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

To the Board of Directors
South Bay Community Services

Compliance

We have audited the compliance of South Bay Community Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. South Bay Community Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of South Bay Community Services' management. Our responsibility is to express an opinion on South Bay Community Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Bay Community Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of South Bay Community Services' compliance with those requirements.

In our opinion, South Bay Community Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of South Bay Community Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered South Bay Community Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Bay Community Services' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leaf & Cole LLP

San Diego, California
December 8, 2008

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified	
Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified not considered to be material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	U.S. Department of Housing and Urban Development - HOME Investment Partnerships Program.
93.674	Department of Health and Human Services - Chafee Foster Care Independence Program.

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditor's Results: (Continued)

Federal Awards (Continued)

CFDA Number(s)

Name of Federal Program or Cluster

14.241

U.S. Department of Housing and Urban
Development - Housing Opportunities for
Persons with AIDS.

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X Yes No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None

**SOUTH BAY COMMUNITY SERVICES
(A NONPROFIT CORPORATION)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

There were no prior audit findings for South Bay Community Services relative to federal awards.